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FISCAL IMPACT STATEMENT

LS 6325

BILL NUMBER: SB 123

NOTE PREPARED: Feb 11, 2003

BILL AMENDED:

SUBJECT: Broadband Internet Property.

FIRST AUTHOR: Sen. Ford

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a Sales Tax exemption for transactions involving property that is: (1) capable of providing broadband Internet service; (2) owned by or leased to a broadband service provider; and (3) located outside a customer's premises.

Effective Date: July 1, 2003.

Explanation of State Expenditures:

Explanation of State Revenues: This bill extends the current Sales Tax exemption on certain telecommunication equipment to include property that is capable of providing broadband Internet service. Exempting the purchase and lease of this property will decrease state Sales Tax revenue. The impact on state revenue is currently unquantifiable, as it is contingent upon the future deployment of these services. Nonetheless, given the current and expected growth in demand for broadband service and the various technologies that are capable of offering broadband service, the potential revenue loss could be significant.

Background Information: Under current law, certain transactions involving the sale of telecommunications equipment are exempt from the Sales Tax if the equipment is used primarily for telecommunications services. Technological advances, however, often blur the distinctions between equipment used for telecommunications and Internet service. Firms are often able to use the same infrastructure to provide telephone, Internet, and cable television services. It is expected that the majority of new development in Internet and cable television services will be capable of providing broadband Internet service.

The Department of State Revenue's current procedure in cases where systems are able to provide both

Internet and phone service is to exempt equipment purchases from the Sales Tax if the equipment is predominately used to provide telecommunications services.

P.L. 192-2002 (ss) increased the Sales Tax rate to 6% and modified the distribution of Sales Tax revenue. The increase became effective on December 1, 2002 and the distribution changes are effective January 1, 2003. After January 1, 2003, Sales Tax revenue will be deposited in the Property Tax Replacement Fund (50%), the State General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Loan Fund (0.033%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources:

Fiscal Analyst: John Parkey, 232-9854